



Stalprodukt S.A.

REPORT

OF THE SUPERVISORY BOARD
OF STALPRODUKT S.A.
based in Bochnia

for 2023

Bochnia, May 2024

This report covers:

- I. Activities and decisions of the Supervisory Board of Stalprodukt S.A. and the Audit Committee along with the self-assessment of the work of the Supervisory Board in 2023.
- II. Assessment of the economic and financial situation of Stalprodukt S.A. for the period from January 1, 2023 to December 31, 2023, including the assessment of internal control systems, risk management and the work of the Company's Management Board.
- III. Assessment of the manner in which the Company fulfils its disclosure obligations regarding the application of the corporate governance principles set out in the Stock Exchange Regulations and the provisions on current and periodic information provided by issuers of securities.
- IV. Assessment of the rationality of the company's policy in the field of sponsorship, charity or other activities of a similar nature.
- V. Report of the Supervisory Board on the results of the assessment of the financial statements of Stalprodukt S.A. for the period from 1 January to 31 December 2023.
- VI. Report of the Supervisory Board on the results of the assessment of the consolidated financial statements of the Stalprodukt S.A. Capital Group and the Management Board's report on the activities of the Stalprodukt S.A. Capital Group for the period from January 1 to December 31, 2023.
- VII. Report of the Supervisory Board on the results of the assessment of the Report of the Management Board on the activities of Stalprodukt S.A. for the period from January 1, 2023 to December 31, 2023.
- VIII. Assessment of the motion of the Management Board of the Company regarding the distribution of the net profit for 2023.
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I. Activities and decisions of the Supervisory Board of Stalprodukt S.A. and the Audit Committee together with the self-assessment of the work of the Supervisory Board in 2023.

In the period from January 1, 2023 to December 31, 2023, the Supervisory Board acted on the basis of: the provisions of the Commercial Companies Code, the provisions of the Company's Articles of Association, the Regulations of the Supervisory Board of Stalprodukt S.A. as well as the corporate governance principles adopted by the Company set out in the Best Practices of Listed Companies WSE, by constantly supervising the Company's operations in all areas of its operation, as well as considering issues and motions submitted to the Supervisory Board meetings by the Company's Management Board.

Composition of the Supervisory Board in the reporting period:

In 2023, the Supervisory Board worked in the following composition:

Stanisław Kurnik - Chairman of the Supervisory Board

Sanjay Samaddar - Vice-Chairman of the Supervisory Board

Magdalena Janeczek - Secretary of the Supervisory Board

Agata Sierpińska-Sawicz - Member of the Supervisory Board

Romuald Talarek - Member of the Supervisory Board

Statutory activities

In the reporting period, the Supervisory Board conducted its activities in the form of meetings (stationary and remote) convened by the Chairman of the Supervisory Board. The Supervisory Board performed its activities collectively.

In the period from January 1, 2023 to December 31, 2023, the Supervisory Board held 3 stationary meetings, during which it adopted 22 resolutions and 4 online meetings, during which 8 resolutions were adopted via means of direct distance communication.

At its meetings, the Supervisory Board analyzed the production and financial results of the Company, assessed the economic and economic situation and its functioning, as well as assessed the current situation of the Company.

At the meetings of the Supervisory Board, members of the Management Board of the Company presented extensive information on the current economic and financial situation of the Company, its operations, action plans and significant events that may affect its operations. The Management Board of the Company informed the Supervisory Board in detail about all important issues connected with the conducted activity and about the risks associated with them and the method of managing these risks.

The cooperation with the Management Board of the Company throughout the period was correct and did not raise any reservations. The Supervisory Board received exhaustive information on the situation of the Company, as well as on all other matters on the Board's agenda.

The Supervisory Board in 2023, among others:

- analysed the quarterly financial results of the Company,
- assessed the Management Board's report on the Company's operations and the Company's financial statements for the financial year from 1 January to 31 December 2023, as well as the Management Board's motion regarding the distribution of net profit for the financial year from 1 January to 31 December 2023, and recommended the Annual General Meeting to adopt resolutions in accordance with these conclusions,
- assessed the consolidated financial statements of the Stalprodukt S.A. Capital Group and the Management Board's report on the activities of the Stalprodukt S.A. Capital Group for the financial year from 1 January to 31 December 2023 and recommended the Annual General Meeting to adopt a resolution in accordance with this request,
- prepared and approved a report on the activities of the Supervisory Board in the period from 1 January to 31 December 2023,
- considered and gave opinions on the matters that were the subject of the Ordinary General Meeting of the Company,
- approved the Plan of Stalprodukt S.A. for 2023,
- approved the directions of strategic activities of the Company and the Stalprodukt S.A. Capital Group. for the years 2023-2030,
- adopted, prepared pursuant to Art. 90g. Acts. on public offering and conditions for introducing financial instruments to organized trading and on public companies (Journal of Laws of 2020, item 2080), Report on the remuneration of members of the Management Board and Supervisory Board of Stalprodukt S.A. for 2023,
- approved changes and updates to the consolidated text of the Organizational Regulations of Stalprodukt S.A.,
- consented to liquidation proceedings of the subsidiary ANEW INSTITUTE Sp. z o. o. based in Kraków,
- consented to the purchase of shares of Zakłady Górniczo-Hutnicze "Bolesław" S.A. from minority shareholders,
- adopted the Report on the periodic assessment of transactions with related entities for the second half of 2022 and the first half of 2023,
- and adopted resolutions regarding consent to the Company carrying out certain activities, e.g. purchasing and selling real estate.

All meetings of the Supervisory Board were documented in the minutes of the meetings.

Audit Committee

The activities of the Supervisory Board were supported by the Audit Committee, an advisory and opinion-forming body operating within the structures of the Supervisory Board and appointed from among its members. The scope of activities of the Audit Committee is determined by the Regulations of the Audit Committee adopted by the Supervisory Board.

In the period from 1 January to 31 December 2023, the Audit Committee of the Supervisory Board of Stalprodukt S.A. performed its duties in the following composition:

- Agata Sierpińska-Sawicz - Chairwoman,
- Romuald Talarek - Deputy Chairwoman,

- Magdalena Janeczek - Member.

Ms. Agata Sierpińska-Sawicz has knowledge and skills in the field of accounting and auditing of financial statements, Romuald Talarek has knowledge and skills in the industry in which Stalprodukt S.A. operate, this is Romuald Talarek.

Two members of the Audit Committee, i.e. Ms. Agata Sierpińska-Sawicz and Mr. Romuald Talarek, are independent of the Company, i.e. meet the independence criteria referred to in Art. 129 section 3 of the Act of 11 May 2017 on statutory auditors, audit firms and public supervision (Journal of Laws 2023 item 1015 dated 26.05.2023)

In the period from January 1, 2023 to December 31, 2023, the Audit Committee held 4 stationary meetings and 4 using means of direct remote communication.

Throughout the reporting period, the Audit Committee monitored the process of preparing financial statements and submitted to the Supervisory Board a report on its work along with a recommendation regarding the assessment of financial statements.

The Audit Committee actively cooperated with the statutory auditor (KPW Audit and Consulting) carrying out the review of the semi-annual financial statements and discussed the results of the annual audits of financial statements.

Self-assessment of the work of the Supervisory Board in 2023

The Supervisory Board (in its opinion) in the period from 1 January to 31 December 2023 correctly performed its tasks and obligations resulting from the Articles of Association and the Regulations of the Supervisory Board, as well as from the Code of Commercial Companies, consisting in constant supervision over the Company's activities.

The Supervisory Board monitored the financial results and the situation of the Company on an ongoing basis. The Management Board of the Company informed the Supervisory Board about the situation of the Company as well as about possible threats and risks related to the conducted activity. Due to the appropriate competences to perform its functions and efficient organization of work, the Supervisory Board effectively carried out its statutory tasks, guided by the interests of the Company.

The Supervisory Board assesses its work throughout 2023 as effective and conducted in accordance with the best standards.

II. Assessment of the economic and financial situation of the Company for the period from January 1, 2023 to December 31, 2023, including the assessment of internal control systems, risk management and assessment of the work of the Management Board.

Based on the Financial Statement, the Management Board's Report and the Independent Auditor's Report, the Supervisory Board assesses the Company's financial standing as good.

The following areas were taken into account in this assessment:

- structure of assets and sources of its financing,
- the level of financial liquidity and debt,

- profitability of the company and factors shaping it.

Structure of assets and sources of its financing

In 2023, there were changes in the shaping of assets and their financing sources. In 2023, the Company had assets worth PLN 2,705,274 thousand, which means that this property increased by 1.3% compared to the previous year. Fixed assets decreased by 1.3%, mainly in the items Tangible assets (decrease by 5.3%), which account for over 49.6% of their total value. Long-term financial assets (shares and shares in subsidiaries) account for 37.8% of fixed assets. The increase in their value in 2023 compared to the previous year was insignificant and amounted to 3%.

Current assets increased by 4.2% compared to 2022. In 2023, the Company recorded an decrease in inventories by 43.5%, and short-term receivables decreased by almost 36.6%. The company achieved exceptionally high growth in cash and cash equivalents. These funds in 2023 increased almost 2 times compared to the previous year. These uneven changes in the dynamics of individual components of the company's assets resulted in changes in its structure.

The share of fixed assets in the company's total assets was 51.2% in 2023, while a year earlier it was 52.3%. In 2023, there was also a change in the structure of current assets. The share of inventories in this asset in the analyzed year was 20.7%, and in 2022 - 38.1%. The share of receivables in current assets decreased from 32.2% in 2022 to 19.7%, and the share of cash increased in the analyzed period from 29.5% in 2022 to 59.4% in 2023. This increase was the result of releasing funds previously frozen in inventories and recovering funds from recipients as well as accumulating retained earnings from the previous year.

At the end of 2023, the Company had PLN 784 million on its account. The company maintains a cash balance, and the funds remaining at the end of the year will be used to finance operating activities and implement the investment program adopted in the development strategy for the coming years.

In 2023, there were also changes in the structure of asset financing sources. Shareholders' equity increased by 6.2% compared to the previous year (mainly in retained earnings). The Company's long-term liabilities increased by less than 1%, and short-term liabilities decreased by 34.8%. Equity financed 87.4% of assets in 2023, while a year earlier it was 83.4%. With such a high degree of financing the company with equity capital, it can be concluded that the company has a strong financial position and is a reliable business partner on the market. It should be noted, however, that the predominance of equity capital in the structure of asset financing sources reduces the rate of return on this capital.

Part of the equity in the form of net working capital is used to finance the operating activities of the company. Net working capital in 2023 amounted to PLN 1124.5 million and it financed almost 85.1% of current assets while in 2022 it amounted to PLN 966.2 million and financed 76.2% of these assets. These data indicate a very high level of financing the operating activity with constant capital. On the one hand, this proves financial security, on the other hand, it may

contribute to an increase in the average cost of capital and a decrease in the number of profitable investments when comparing their profitability with the average cost of capital involved in their financing. However, the dynamic environment of the Company, strong competition, increase in energy prices and CO₂ charges, the risk of an increase in debt interest and risks related to the war in Ukraine, as well as fluctuations in the Company's financial result justify the conservative strategy of the Management Board in the area of financing operating activities.

Total liabilities financed only 12.6% of the company's assets, while in 2022 it was 16.6% of total financing sources. The decrease in debt in the structure of liabilities was influenced by the increase in equity from net profit generated in 2023. This profit amounted to PLN 219,648 thousand and decreased by 52.8% compared to the previous year. The main source of this profit were dividends from subsidiaries, while the profit generated from basic operating activities amounted to only PLN 39,389 thousand.

When assessing the structure of assets and sources of their financing, the specificity of highly capital-intensive industries should be taken into account. The metallurgical industry is one of them, characterized by a high share of equity in the structure of liabilities due to a significant burden on assets with fixed assets and fluctuations in the financial result under the influence of economic changes. In addition, traditional industries are not highly valued by the stock exchange, especially in conditions of strong market competition. At the end of the year, the stock market valued the shares of Stalprodukt S.A. PLN 241 each, while their book value was PLN 438.10, which was 81.8% higher than the market value.

Assessment of financial liquidity and debt level

Financial liquidity was measured based on the size of the Company's current assets and the level of operating cash and current liabilities whose payback period is shorter than the financial year.

In 2023, the current financial liquidity ratio increased compared to the previous year, mainly as a result of a faster increase in current assets than short-term liabilities. Current assets increased by 4.2% compared to the previous year and short-term liabilities decreased by 34.8%.

The financial liquidity ratios in the next five years were as follows:

<i>Specification</i>	2018	2019	2020	2021	2022	2023
<i>Current financial liquidity ratios</i>	1,75	2,41	3,08	2,84	4,21	6,72
<i>Acid liquidity ratios</i>	0,82	1,27	1,91	1,52	2,60	5,32
<i>Short-term investment indicators</i>	0,13	0,29	0,95	0,45	1,24	3,99
<i>Cash liquidity ratios</i>	-0,06	0,45	0,63	-0,01	0,76	1,81

The accelerated liquidity ratio also increased from 2.6 in 2022 to 5.32 in the year under analysis, which means that liquid assets (receivables + cash and cash equivalents) were over 5 times higher than short-term liabilities. The increase in cash held by the company was

exceptionally high, more than twofold. The cash liquidity ratio calculated as the ratio of operating cash flows to short-term liabilities was at a very high level. In 2023, there was PLN 1.81 of operating cash per PLN 1 of short-term debt, while in 2022 it was PLN 76.

To assess the company's financial condition a cash flow statement was also used. It shows in which areas of activity the funds were generated, and which areas these funds were absorbed.

Cash flows in the following years were as follows (in PLN thousand):

	2018	2019	2020	2021	2022	2023
- net cash flow from operating activities	-24 996	+115 108	+141 301	-2 095	229 231	356 208
- net cash flow in the investment area	-58 943	+79 386	+26 146	+23 051	142 685	143 367
- net cash flows from financing activities	+4 780	- 170 484	-25 523	- 61 539	-151 019	-89 393
- balance sheet change in cash	-79 159	+24 010	+141 924	- 40 583	220 897	410 182
- cash at the end of the year	+27 612	+51 621	+193 545	+152 962	373 859	704 184

The company generated PLN 356,208 thousand of free funds in operating activities. Free cash in investing activities amounted to PLN 143,367 thousand, these were mainly dividends from subsidiaries in the amount of PLN 174,011 thousand. The cash generated covered the needs in the financial area (dividend payment PLN 80,994), and the remaining part was accumulated in the bank account, similarly to the funds allocated in the investment area. These funds will be allocated to the implementation of strategic investment projects in the coming years. In 2023, investment expenditure amounted to PLN 23,755 thousand were lower than the level of depreciation (PLN 54,457 thousand), which means that the company did not carry out simple reproduction of tangible fixed assets. It should be noted, however, that the increase in prices of fuel and energy raw materials, the increase in inflation and interest rates, and the uncertainty of the economic situation among recipients of finished products had an adverse effect on some areas of the Company's operations, including: on the level of investments made.

Company profitability assessment

The main determinant of the company's financial condition for shareholders is the rate of return on engaged capital. In their investment decisions, they are guided by the rate of return, comparing it to alternative possibilities of using free funds. One of the determinants of the rate of return on capital is return on sales. It was calculated at four levels of the profit and loss account.

In the audited financial year, the return on sales at individual levels of the profit and loss account was as follows:

<i>Specification</i>	<i>2018</i>	<i>2019</i>	<i>2019*</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>	<i>2023</i>
<i>Sales profitability,%</i>	2,4	- 0,1	1,3	0,9	11,9	13,84	2,00
<i>Operating profitability,%</i>	2,1	-3,0	1,0	1,8	11,4	12,11	2,39
<i>Gross profitability,%</i>	7,8	5,9	7,1	4,2	12,5	15,89	10,62
<i>Net profitability,%</i>	7,3	5,7	6,9	4,1	10,7	13,61	9,83

**Gross and net profitability has been established as the ratio of gross or net profit to the company's total revenues (sum of revenues from product sales, other operating revenues and financial revenues).*

In 2023, there was a clear decrease in profitability compared to the previous year, both in terms of sales profitability and gross and net profitability. In 2023, operating revenues (sales revenues, operating and financial revenues) reached PLN 2,233,803 thousand, which means an decrease of 23,6% compared to 2022.

In the year under analysis, the Company generated a profit at the level of operating activities only in the amount of PLN 48,600 thousand while in 2022 it was PLN 336,452 thousand, so the profit a year earlier was higher by 85.6%. Net profit in 2023 amounted to PLN 219,648 thousand and was lower than the net profit from the previous year by 44.8%, while EBITDA reached the value of PLN 103,057 thousand and was lower than in 2022 by 73.5%.

The company recorded a significant decline in sales revenues in terms of value in all sales segments. Financial revenues mainly from dividends received from subsidiaries amounted to PLN 202,088 thousand. The dividend income recognized in the profit and loss account does not increase the tax base (it is a net amount) because the tax is paid at source, i.e. by the company paying the dividend. The dividend and the deferred settlement of certain expenses in the costs resulted in the effective the tax rate was lower than the nominal rate (19%) and in 2023 amounted to 7.42%, while in the previous year it was 14.4%.

The Company's main export product is electrical sheets.

In 2023, domestic sales accounted for only 32.5% of the total value of sales revenues. Revenues from the sale of transformer sheets accounted for 77% of the Company's total revenues. Revenues from export sales of sheet metal decreased by 23% and prices were lower by 12%. **One third of sales of both CGO and HGO sheets went to Italian customers. 11% of sheet metal sales were each delivered to Mexico and Austria, and countries such as Croatia, India, Turkey and Slovakia had a share in export sales of 5-7%.** Domestic revenues from the sale of these sheets in 2023 decreased by 31.1% compared to the previous year. Total revenues from the sale of electrical sheets decreased by 23.0% in 2023 compared to 2022. The import of transformer sheets to Poland during 12 months of 2023 was almost identical to the previous year and amounted to 9.7 thousand. Prices of imported material increased by 13% compared to the previous year (PLN 18.5 thousand/MT). One third of sheet metal imports each came from the Czech Republic, Germany and Italy, and from China it was 10% of total imports. Wide circles were imported mainly from Japan (90%). It is worth noting a significant increase in Asian production capacity and an aggressive export policy to the unprotected European market, especially from China, Japan and Brazil.

Particularly dangerous for Stalprodukt is the further development of the production capacity of grain-oriented sheets, especially by Chinese producers.

Sales of transformer cores and fittings expressed in value in 2023 decreased **by 18.1% and prices decreased by 4%**. **36%** of the production of these products was sold in the country, in the previous year it was 29.4%. The company has very strong competition in the form of imports mainly from China, India, Turkey, the Czech Republic and Slovenia. Competing on the market for these products is becoming more and more difficult due to technological reasons and the decline in demand due to the uncertain economic situation in the global economy.

Cold-bent sections are the basic product of domestic sales. In 2023, 121.1 thousand were produced. tons compared to 139.7 thousand tons a year earlier and 152.9 thousand tons in 2021. Sales of z/g sections in terms of tonnage are systematically decreasing. In 2023, 71.4% of production was sold on the Polish market, while the rest was sold to foreign markets. The prices of sections decreased by 26% compared to the prices in 2022. Sales revenues decreased by 35.7%, with the decline in export revenues being higher and amounting to 37.0%. In the domestic consumption of cold-bent sections, the Company estimates its share at approximately 20%, and its share in Polish exports amounted to approximately 26%.

Sales of road barriers in tonnage terms in 2023 were lower than in the previous year by 17.9%, and the decline in revenues from the sale of barriers was 11.3%. The prices of road barriers increased on average by 8% compared to the prices in 2022. 58.4% of the barriers produced were sold in Poland. The company has the ability to develop this product segment under the adopted program for the construction of bypasses, expressways and highways until 2030.

The Sheet Metal Service Center achieved poorer results in 2023. 8.3 thousand sold tons of sheet metal, for the amount of PLN 34 million, which means a 30% decrease in volume compared to the previous year and a 44% decrease in sales revenues. Prices of the segment's products decreased by 20%. Domestic sales in terms of tonnage accounted for 82% of total sales. Revenues from export sales increased by 40.9% while revenues from domestic sales decreased by over 50%. The sale of the service center does not have a major impact on the overall financial result, as the total revenues of the service center are only 2.0% of revenues from the sale of products, goods and materials.

The segment of other activities, covering mainly the sale of goods, recorded a decrease in sales revenues by almost 30% in 2023 compared to the revenues from 2022.

The decline in sales volume and prices of finished products had the greatest impact on the Company's financial result.

The profitability of the Company's assets and equity decreased significantly in 2023. These ratios were calculated as the ratios of net profit to the average annual value of assets and equity. This is illustrated by the following data

This is illustrated by the following data:

Specification	2018	2019	2019*	2020	2021	2022	2023
<i>Return on assets (ROA),%</i>	6,0	4,3	5,2	2,5	9,6	15,60	8,17
<i>Return on equity (ROE),%</i>	7,9	5,6	6,8	3,2	11,9	19,10	9,56
<i>Capital multiplier (assets / equity), (times)</i>	1,33	1,32	1,32	1,26	1,24	1,22	1,14

* data restated in accordance with the Financial Statements for 2020

The rate of return on equity decreased from 19.10% in 2022 to 9.56% in the year under analysis. The return on assets also decreased from 15.60% to 8.17%. This reduction in profitability was caused by a significant decline in net profit coupled with an increase in equity and assets.

The level of benefits generated for shareholders can be expressed in the value for shareholders, as shown in the table below.

Specification	2018	2019	2020	2021	2022	2023
<i>Number of shares, thous. pcs</i>	5580	5 580	5 580	5 580	5580	5400
<i>Share price (last December quotation)</i>	320	181,60	300,50	263,50	238	241
<i>MV thous. PLN</i>	1 785 600	1 013 376	1 676 870	1470 330	1 328 040	1 301 400
<i>Equity, thous. PLN</i>	1 632 876	1 699 505	1 754 349	1 940 931	2 226 021	2 365 575
<i>MVA, thous. PLN</i>	152 724	- 686 129	- 77 479	- 470 601	-898 881	-1 064 175

At the end of 2023, the capital market valued the Company significantly below its book value. The book value of one share in 2023 was PLN 438.10 and was 9.8% higher than in the previous year. At the end of the year, the book value of the shares was 81.78% higher than the stock exchange price of the shares from the last quotation in December 2023. Net profit per share in 2023 decreased and amounted to PLN 40.68 compared to PLN 71.34 in the previous year. Over the last dozen or so years, the company did not issue shares, did not use additional shareholders' capital, and its development was financed mainly from retained earnings after the payment of dividends and periodically from external capital. In the long term, taking into account dividends paid and changes in share prices, Stalprodukt generated a satisfactory rate of return on capital for its shareholders. It should be emphasized that investments in shares are long-term instruments and due to fluctuations in the economic situation on capital markets in short periods, this rate is also subject to changes.

Assessment of the work of the Company's Management Board.

The Supervisory Board assessed the work of the Company's Management Board in 2023 very positively. Conditions on the steel market were and still are difficult due to strong competition and large imports of steel products. In 2023, it accounted for 85% of the apparent steel consumption in the Polish economy. Additionally, the declines in the prices of technological inputs and energy were lower than the declines in the prices of finished products resulting from excessive production capacity in many countries in relation to their domestic consumption. This increases competition on the market and affects the financial results of entities in the steel industry.

In the assessment of the company's management board for 2023, the following should be emphasized:

- **ensuring that the Company's financial liquidity is maintained.** Financial liquidity ratios are at a very high level. Current assets are financed by net working capital and spontaneous liabilities. Correct capital management is particularly important in conditions of price fluctuations on the steel products market and high competition. At the end of 2023, the Company had PLN 784.0 million on its account, which constitutes over 59% of current assets. At the beginning of the year, the Company had PLN 373.8 million, PLN 410.2 million was generated during operational investment activities. In the year under review, the Management Board attached great importance to the problem of maintaining financial liquidity, i.e. the ability to timely settle liabilities due to employees, the budget, banks and suppliers.
- **maintaining short- and long-term capital-cash balance.** At the end of 2023, the company did not use bank loans, and the liability under leasing contracts concerned the right of perpetual usufruct of land defined by IFRS 16 as leasing. The company has agreements with banks on multi-purpose credit lines, aimed at securing supplies and letters of credit and maintaining the ability to settle liabilities on time. The company has large capital potential in the form of equity capital. It also has the ability to make extensive use of the debt market and can diversify its operations to limit the impact of industry business cycles on financial results.
- **the financial results** obtained in the conditions of exceptionally strong market competition of the Company must be assessed positively. In order to maintain the Company's competitiveness on the market, the Management Board flexibly responds to market needs by changing the assortment structure, improving product quality, ensuring timely deliveries or changes in market prices, and observing the behavior of competitors. Maintaining the Company's market position in conditions of high market risk volatility and competition from imports required a lot of effort by the Management Board. The Company's financial results, asset and capital situation as well as cash resources indicate that it can effectively modernize production technologies, launch the

production of new products and implement broadly understood development as well as undertake projects in the area of renewable energy and environmental protection.

- **proper management of supply and sales processes.** The company maintains a reasonable level of inventories of raw materials and finished products, ensuring continuity of supplies to the sales market. This is extremely important in conditions of strong market competition and import of products. The Management Board takes effective measures to ensure continuity and regularity of deliveries of technological inputs in order to fulfill orders on time and maintain inventory levels at an optimal level. The purpose of inventory management in the Company is to balance the benefits and costs associated with inventory management.

- **correct selection of trade credit instruments.** The Management Board uses various trade credit instruments and flexibly shapes the prices of final products in order to limit the risk of non-recovery of receivables. However, in the conditions of payment bottlenecks in the economy, high interest rates and large imports of steel products, overdue receivables increased in 2023 and accounted for 18.1% of receivables from customers compared to 9.4% in the previous year. Almost 85% of receivables are past due for no more than 30 days. In 2023, the risk of possible failure to recover overdue receivables was limited by ongoing examination of the creditworthiness of contractors and the use of security measures such as bank guarantees, letters of credit, sureties and bills of exchange, and constant monitoring of overdue receivables. The sales department and the finance department apply appropriate credit and debt collection procedures. These procedures determine the method of selecting contractors, setting credit limits and dealing with overdue receivables.

- **rational financial risk management.** Financial risk management is carried out by the Finance and Risk Management Department subordinated to the Financial Director. In its operations, the Company, like any entity, is exposed to credit and contract risk, risk of loss of financial liquidity and market risk related to changes in interest rates and exchange rates. The Management Board flexibly uses various types of instruments to secure the Company against the above-mentioned risks. The Council confirms that the Management Board consistently implements the adopted risk management policy and applies a risk avoidance or risk hedging strategy. The company has full ability to settle its liabilities on time and is not exposed to currency risk resulting from exchange rate fluctuations due to the possibility of using natural hedging, as it settles currency liabilities from sales revenues in foreign currencies. Stalprodukt S.A. is not exposed to the risk of changes in interest rates because it does not use bank loans. The basic risks related to the Company's activities concern the operational area and include: unfavorable market environment, poor economic development, increase in electricity and gas prices, rising costs of the EU climate policy forcing the implementation of costly investments aimed at reducing CO₂ and high prices of CO₂ emission allowances. More and more frequent changes in EU regulations, especially those related to the so-called green deal pose regulatory risks. This risk increases the costs of advisory and legal services related to the need to implement new regulations and their proper interpretation. Due to the specific nature of its business, the Company is also exposed to events that may affect human safety and the environment. Risks are also generated by formal and legal conditions of activity, such as market protection measures (customs duties and quotas), which significantly distort market

competition. The Company's Management Board systematically takes action to improve the process of detecting and preventing possible economic crime.

- **care for the environment and compliance with related standards.** In the opinion of the Supervisory Board, the Company's Management Board takes great care to adapt the Company's operations and its business model to environmental protection requirements. The Management Board strives to use renewable energy and advanced recycling techniques to effectively fit into the circular economy scheme. These tasks are subordinated to the Company's strategy for the coming years. The implemented environmental activities concern in particular the improvement of energy efficiency (including through the development of a cogeneration source, reconstruction of technological lines) and the decarbonization of production by eliminating the use of thermal coal, replacing gray hydrogen with green hydrogen and building our own renewable energy sources. The company started the construction of a photovoltaic farm and the task of building a trigeneration source to replace the coal-fired boiler room was launched. In addition, the Management Board takes care to raise employees' awareness of the impact of their work on the natural environment and the consequences of failure to comply with applicable rules of conduct.

- **conducting a rational information policy for the capital market.** In the opinion of the Supervisory Board, the Company's Management Board provides timely and reliable information to investors and clearly presents the company's strategy in the basic areas of its operations.

Summing up, the Supervisory Board positively assesses the Company's activities in the entire scope of its operation: in the operational, investment and financial areas. The company pursues all its goals in a sustainable manner, based on well-understood rationality, including maintaining business continuity and implementation of plans, mitigating risks and meeting the challenges of market uncertainty, and effectively responding to rapidly changing law regarding, among others, digital transformation and financial security, environmental protection. The Supervisory Board emphasizes that the Management Board takes due care of the Company's position on the competitive market, the Company's brand and its reputation as a reliable supplier of products.

Evaluation of internal control and risk management systems.

The internal control system and risk management system used in the company allow for systematic identification and control of risks related to the nature and profile of the Company's operations. The Polish economy remains strongly influenced by the effects of the war in Ukraine, reflected in the increase in the costs of energy and natural gas. The increase in energy costs was influenced by high prices of CO₂ emission allowances. Risks related to the economic situation on the local market and in European Union countries, generating demand for the company's products, increases in the prices of input materials, increases in electricity prices, and increases in the costs of the EU climate policy are monitored by the Company's Management Board, which systematically takes actions to limit their effects.

III. Assessment of the manner in which the Company fulfils its disclosure obligations regarding the application of the corporate governance rules set out in the Stock Exchange Regulations and the provisions on current and periodic information published by issuers of securities.

The Supervisory Board positively assesses the manner of fulfilling the disclosure obligations regarding the application of the corporate governance principles set out in the Stock Exchange Regulations and the provisions on periodic and current information published by issuers of securities. The Management Board informs and clearly explains to the shareholders the restrictions on the application of certain corporate governance principles.

IV. Assessment of the rationality of the company's policy in the field of sponsorship, charity or other activities of a similar nature.

The Supervisory Board positively assesses the policy pursued by the Management Board of Stalprodukt S.A. in the field of sponsorship, charity or other activities of a similar nature.

V. Assessment of the financial statements of Stalprodukt S.A. for the financial year from 1 January to 31 December 2023.

In carrying out the tasks resulting from art. 382 § 3 of the Commercial Companies Code and § 28 item 2 of the Company's Articles of Association, the Supervisory Board assessed the financial statements of Stalprodukt S.A. prepared for the financial year covering the period from 1 January to 31 December 2023, which consists of:

- 1) balance sheet prepared as at December 31, 2023, which shows a PLN **2,705,274** thousand balance in assets and liabilities;
- 2) statement of profit and loss and statement of comprehensive income for the period from January 1, 2023 to December 31, 2023, showing comprehensive income and net profit of PLN **219,648** thousand;
- 3) statement of changes in equity for the period from January 1, 2023 to December 31, 2023, showing an increase in equity by the amount of PLN **138,654** thousand;
- 4) cash flow statement for the period from January 1, 2023 to December 31, 2023, showing an increase in cash by the amount of PLN **410,182** thousand;
- 5) additional information on the adopted accounting principles and other explanatory information.

The Supervisory Board got acquainted with the audit company KPW Audyt Sp. z o. o. The report on the audit of the separate annual financial statements, which shows that the audited financial statements:

- provides a reliable and clear picture of the entity's property and financial position as at December 31, 2023, as well as its financial result for the financial year from January 1,

2023 to December 31, 2023, in accordance with the International Financial Reporting Standards,

- has been prepared, in all material respects, in accordance with the International Financial Reporting Standards as approved by the European Union,
- complies in all material aspects, in terms of form and content, with the Regulation of the Minister of Finance of March 29, 2018 on current and periodic information provided by issuers of securities and the conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of 2018, item 757), hereinafter referred to as the regulation on current and periodic information and with the provisions of the Company's Articles of Association affecting its content,
- has been prepared on the basis of correctly kept, in all material aspects, accounting books in accordance with the principles set out in the Accounting Act.

After analyzing the financial statements of Stalprodukt S.A. prepared for the financial year covering the period from January 1, 2023 to December 31, 2023 and having read the opinion and report of the statutory auditor, the recommendation of the Audit Committee as well as based on its own analyses, the Supervisory Board states that in its opinion the financial statements of the Company Stalprodukt S.A. prepared for the financial year covering the period from January 1 to December 31, 2023 - as at December 31, 2023, has been prepared correctly, in accordance with applicable law, is consistent with the books and documents as well as with the facts, and presents information fairly and clearly significant for the assessment of the property and financial situation of the Company.

VI. Assessment of the consolidated financial statements for the financial year from 1 January to 31 December 2023 of the Stalprodukt S.A. Capital Group and the Management Board's report on the activities of the Stalprodukt S.A. Capital Group for 2023.

The Supervisory Board assessed the Management Board's report on the activities of the Stalprodukt SA Capital Group and the consolidated financial statements for the financial year from 1 January to 31 December 2023, which consists of:

- 1) consolidated balance sheet prepared as at December 31, 2023, showing the assets and liabilities in the amount of PLN **4,836,384** thousand;
- 2) consolidated profit and loss account for the period from January 1, 2023 to December 31, 2023, showing a net profit of PLN **87,175** thousand,
- 3) consolidated statement of comprehensive income for the period from January 1, 2023 to December 31, 2023, showing total comprehensive income in the amount of PLN **86,031** thousand;
- 4) statement of changes in consolidated equity for the period from January 1, 2023 to December 31, 2023, showing an increase in equity by PLN **4,644** thousand,
- 5) consolidated cash flow statement for the period from January 1, 2023 to December 31, 2023, showing an increase in cash by the amount of PLN **506,286** thousand,

- 6) additional information on the adopted accounting principles (policy) and other explanatory information.

After analyzing the consolidated financial statements of the Stalprodukt S.A. Capital Group, as well as the Management Board's report on the activities of the Stalprodukt S.A. Capital Group for the period from January 1, 2023 to December 31, 2023, having read the opinion and report of the statutory auditor, the recommendation of the Audit Committee, the Supervisory Board assesses that the reports in question contain all the required elements, have been prepared correctly, in accordance with applicable law and present information significant for the assessment of the property and financial situation of the Stalprodukt S.A. Capital Group.

VII. Assessment of the Management Board Report on the operations of Stalprodukt S.A. for the period from January 1, 2023 to December 31, 2023.

In carrying out the tasks resulting from art. 382 § 3 of the Commercial Companies Code and § 28 item 2 of the Company's Articles of Association, the Supervisory Board assessed the Management Board's Report on the activities of Stalprodukt SA prepared for the period from January 1, 2023 to December 31, 2023.

The Management Board of the Company worked in the following composition:

- Piotr Janeczek - President of the Management Board, General Director in the period 01/01-24/10/2023 and 26/10/2023 to 31/12/2023
- Łukasz Mentel - Member of the Management Board, Financial Director in the period from January 1 to December 31, 2023.

After analysing the report of the Management Board on the activities of Stalprodukt S.A. for 2023, the Supervisory Board states that, in its opinion, the report was prepared correctly, contains all the required elements, complies with the books and documents as well as the actual state, and presents the situation of the Company in the reporting period reliably and clearly. The Management Board of the Company duly shows the threats and risks of the conducted activity and describes the course of events having a significant impact on the Company's activity.

The sales results achieved, the high financial result, as well as the balance sheet structure, reflected in the economic indicators, allow the Supervisory Board to assess the activities of the Management Board of the Company in the whole of 2023 very well.

The Supervisory Board states that the Management Board's Report on the Company's operations for the financial year covering the period from 1 January to 31 December 2023 contains all information required by law. The financial data presented in the Management Board's Report on the Company's operations are consistent with the information contained in the audited financial statements for the period from January 1, 2023 to December 31, 2023.

The Management Board of the Company attached to the submitted Report a statement on the application of corporate governance principles in the Company.

The completeness of the Management Board's report on the Company's operations for 2023 and its compliance with the information disclosed therein was confirmed by the certified auditor.

As a result of the assessment and following the opinion of the Statutory Auditor, the Supervisory Board recommends to the Ordinary General Meeting to adopt resolutions approving the Management Board's Report on the activities of Stalprodukt S.A. for the period from January 1, 2023 to December 31, 2023 and the financial statements of Stalprodukt S.A. for the financial year from January 1 to December 31, 2023 as well as the consolidated financial statements for the financial year from January 1, 2023 to December 31, 2023 by adopting appropriate resolutions.

The Supervisory Board applies to the Annual General Meeting of Stalprodukt S.A. for granting:

- Mr. Piotr Janeczek's discharge in respect of the performance of his duties in 2023 in connection with serving as the President of the Management Board of the Company in the period from January 1 to October 24, 2023 and from October 26, 2023 to December 2023,
- Mr. Łukasz Mentel's discharge in respect of the performance of his duties in 2023 in connection with serving as a Member of the Company's Management Board in the period from January 1 to December 31, 2023.

VIII. Assessment of the application of the Management Board of the Company regarding the distribution of the net profit for 2023.

Acting pursuant to Art. 382 § 3 of the Commercial Companies Code and § 28 section 2 of the Company's Articles of Association, the Supervisory Board, after reviewing the recommendation of the Audit Committee, positively assesses the motion of the Company's Management Board to discontinue the payment of dividend and retain net profit in the amount of PLN 219,648 thousand achieved by Stalprodukt S.A. in 2023 **and allocating it to reserve capital.**

The Supervisory Board expresses the opinion that the Management Board of Stalprodukt S.A. presented the motion to retain the net profit for 2023 is justified and recommends that the Ordinary General Meeting adopt a resolution on not paying dividends from the net profit for the financial year 2023 in accordance with the proposal included in the motion of the Company's Management Board.

IX. Summary.

This report presents the main directions of the activities of the Supervisory Board of Stalprodukt S.A. in 2023.

The own assessments presented in this report and the opinion expressed by the statutory auditor allow the Supervisory Board to positively assess the situation of the Company in 2023.

In the opinion of the Supervisory Board, the Management Board of the Company exercised due diligence in order to achieve the best possible results by the Company in difficult market

conditions, therefore the Supervisory Board highly appreciated the activities and work of the Management Board of the Company throughout 2023.

The Supervisory Board exercised due diligence in the performance of their duties in the Supervisory Board, using their best knowledge and experience in the performance of their functions with commitment.

This report has been considered and adopted by resolution at the meeting of the Supervisory Board on May 29, 2024 for submission to the Annual General Meeting of Stalprodukt S.A.

Signatures:

Stanisław Kurnik

Sanjay Samaddar

Magdalena Janeczek

*(Chairman of the
Supervisory Board)*

*(Vice-Chairman of the
Supervisory Board)*

*(Secretary of the
Supervisory Board)*

Agata Sierpińska-Sawicz

Romuald Talarek

(Member of the Supervisory Board)

(Member of the Supervisory Board)